

## SUMMARY ANALYSIS OF AMENDED BILL

Author: Rainey Analyst: Paul Brainin Bill Number: SB 1523

Related Bills: See Prior Analysis Telephone: 845-3380 Amended Date: 04-22-98

Attorney: Doug Bramhall

Sponsor: See Prior Analysis

**SUBJECT:** Employer Child Care Start-Up & Qualified Care Plan Contributions Credit/Bank or Financial Corporation Credit For Certain Loans Relating to Child Care Facilities

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended March 24, 1998.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED February 10, 1998/March 24, 1998, STILL APPLIES.

X OTHER - See comments below.

### SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would remove the \$50,000 limitation on the Employer Child Care Program or Facility Credit so that 30% of eligible costs could be claimed as a credit. However, only \$50,000 of the eligible costs could be claimed each year, up to five years. This bill also would add the Employer Child Care Program or Facility Credit to the list of credits which may reduce the tax below the tentative minimum tax (TMT) for purposes of the alternative minimum tax (AMT) calculation.

### SUMMARY OF AMENDMENT

The April 13, 1998, amendment added a provision for the disallowance of the tax credit for foregone interest income on loans used to finance expenditures for purchasing, constructing, expanding, or rehabilitating a qualified child care or development facility. The amendment also redefined a "qualified facility."

The April 22, 1998, amendment removed the provision for the tax credit for foregone interest income on loans for a qualified child care or development facility. The April 22, 1998, amendment returns this bill to its March 24, 1998, version.

DEPARTMENTS THAT MAY BE AFFECTED:

\_\_\_ STATE MANDATE

\_\_\_ GOVERNOR'S APPOINTMENT

Board Position:

X S      \_\_\_ O  
\_\_\_ SA    \_\_\_ OUA  
\_\_\_ N     \_\_\_ NP  
\_\_\_ NA    \_\_\_ NAR  
\_\_\_\_\_ PENDING

Agency Secretary Position:

\_\_\_ S      \_\_\_ O  
\_\_\_ SA    \_\_\_ OUA  
\_\_\_ N     \_\_\_ NP  
\_\_\_ NA    \_\_\_ NAR  
\_\_\_\_\_ DEFER TO \_\_\_\_\_

**GOVERNOR'S OFFICE USE**

Position Approved      \_\_\_  
Position Disapproved    \_\_\_  
Position Noted            \_\_\_

Department/Legislative Director      Date  
**Johnnie Lou Rosas**                      **5/1/98**

Agency Secretary                      Date

By:                      Date:

The department's analysis of the bill as amended March 24, 1998, still applies. The department's unresolved implementation and technical concerns are reiterated for convenience.

#### Implementation Considerations

This bill would make changes to the Employer Child Care Program or Facility Credit, which is available for taxable and income years beginning before January 1, 1998, and is repealed December 1, 1998. This bill does not change these dates; therefore, these changes will have no effect since the bill, as a tax levy, would apply to taxable and income years beginning on or after January 1, 1998. The author's office has stated an intention to double-join this bill with AB 484 and extend the sunset date, which would allow this provision to take effect.

The author's intent is to allow a \$50,000 Employer Child Care Program or Facility Credit for each taxpayer (e.g., individual or corporation) who is a member of a partnership, limited liability company, or any other pass-through entity for each taxable or income year, up to five years. As drafted, the general PITL and B&CTL credit limitation provisions still apply and limit credit amounts at the entity level. The department is working with the author's office to provide that the credit limitations would apply at the member, instead of the entity, level.

Once the implementation concerns are resolved, this credit could be implemented during the department's annual updates.

#### Technical Considerations

The carryover provisions of this bill are unclear and the attached amendments 1 and 2 are provided, consistent with the author's intent, to limit the total credit to \$50,000 per year up to five years.

A paragraph within subdivision (b) of the Employer Child Care Program or Facility Credit is incorrectly numbered. The attached amendments 3 and 4 would correct this error.

#### Fiscal Impact

##### Tax Revenue Estimate

This bill would be effective with income/taxable years beginning on or after January 1, 1998 with enactment assumed after June 30, 1998.

This estimate assumes extension of the sunset date.

Revenue losses for this bill are estimated as follows (in millions):

Provisions	1998-9	1999-0	2000-1
Extend Sunset Date (3 years)	(\$10.0)	(\$11.0)	(\$13.0)
Maximum Credit (Per Taxpayer Basis)	(\$1.0)	(\$1.0)	(\$1.5)
Additional Credit Carryovers	Minor	(\$0.5)	(\$0.5)
Totals	(\$11.0)	(\$12.5)	(\$15.0)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

#### Tax Revenue Discussion

Revenue losses under the PITL and the B&CTL would depend on employers who incur qualifying child care expenses and the ability to apply credits against available tax liabilities.

Actual tax data for 1995 taxable/income year indicate that there were \$7 million in applied credits on approximately 4,500 returns.

From the data, it does not appear that many employers are limited by the \$50,000 maximum credit under current law. If, however, by 1998, the equivalent of 2% of current claimants ( $.02 \times 4,500 = 90$ ) can claim an additional \$10,000 credit due to the multiple taxpayer issue (e.g. each partner eligible for the maximum credit on a facility), the impact would be approximately \$1 million. Additional losses of approximately \$500,000 annually would occur in future years due to additional credit carryovers (i.e., allowing carryovers for computed credits that exceed the \$50,000 maximum).

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FRANCHISE TAX BOARD'S  
PROPOSED AMENDMENTS TO SB 1523  
As Amended April 22, 1998

AMENDMENT 1

On page 7, lines 17 and 18, strikeout "until the credit has been exhausted" and insert:

or until the credit has been exhausted, whichever occurs first

AMENDMENT 2

On page 13, line 34, strikeout "until the credit has been exhausted" and insert:

or until the credit has been exhausted, whichever occurs first

AMENDMENT 3

On page 6, line 27, strikeout "(1)".

AMENDMENT 4

On page 13, line 4, strikeout "(1)".